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Dear Client,

When was the last time you considered your exposure to employee embezzlement and theft? Embezzlement deals with the misappropriation of a company's funds by bookkeeping and accounting personnel and theft deals with the broader area of inventory shrinkage due to employee theft.

There are usually two major factors which can cause an employee, who has otherwise been an honest and trusted employee, to suddenly become involved in an embezzlement or theft. The first is involvement with drugs by either the employee or one of the employees's loved ones; the second is pressure created by an economic downturn.

Experience has shown that when a significant embezzlement or theft is discovered, it is usually a situation where the employee is a trusted person who has been with the company for an extended period of time. The employee has an exemplary work record, is dedicated and is considered to be a "company person." Additionally, if an employee did not have the implicit trust of the employer the embezzlement or theft might not occur. The breakdown in internal control creates a situation where the dishonest employee can manipulate the system.

Typically, the employer is extremely busy and does not have time to get involved in the accounting department. Also, smaller companies usually lack numerical depth in their accounting department which precludes the implementation of strong internal control procedures. When you combine the previous factors with the employer's feeling of total trust in the employee, the situation can prove to be very dangerous.

**Many business people are not aware that the scope a typical accounting engagement does not include specific services relating to the disclosure of employee fraud.**

It is of critical importance that every employer focuses on his or her exposure to potential employee fraud. It is unfortunate that few business people consider this potential for loss in their own operations. It is not until after such a theft is discovered that most employers become sensitive to their own exposure. It is imperative that every business person understand why employees commit fraud and what can be done to prevent employee embezzlement and theft.

Our firm can assist you in developing and implementing important internal controls that will help your company safeguard the integrity of your financial records, while at the same time revealing discrepancies.

Please call me if you have any questions, I will be happy to assist you.

Sincerely,

Peterson & Jake CPA Inc.